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TRANSNATIONAL CORPORATIONS IN THE MARKETING AND EXPORTS OF AFRICAN PRIMARY COMMODITIES: SOME POLICY IMPLICATIONS

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I. INTRODUCTION

1. Since the colonial period, transnational corporations have played a decisive role in determining production and trade of African primary commodities. 1/ In the early stages of agricultural development in Africa, TNCs controlled large-scale plantation agriculture and the production of cash crops for export. Other TNCs concentrated on mining and extractive industries also for export. They decided what crops to produce, how much investment was required and where to sell them. This pattern has not changed significantly after independence.

2. Three factors emerged from this scenario: (a) the production of cash crops received high priority against food production especially for local consumption; (b) the extractive and mining industries concentrated on export of crude minerals and some processing was undertaken only to help to reduce the bulk from export. By and large, this pattern of production has persisted to the extent that most African countries find themselves dependent on a few primary commodities for a major portion of their export earnings; and (c) since production and trade in African primary commodities is controlled by TNCs, African Governments continue to be vulnerable to manipulations of the former in terms of pricing and earnings and this compromises both the political and economic independence. 2/ Partly as a result of a combination of these factors, it has always been difficult for African countries either individually or collectively to adopt an entirely independent policy in the production and marketing of their primary commodities.

3. The policy implications of the activities of TNCs in Africa's trade are indeed very complex requiring a deep analysis and evaluation. Some of this analysis is made in the background papers available to this Conference. The purpose of this brief paper, therefore, is merely to highlight some of the major policy aspects of TNCs in the production and marketing of African primary commodities. It will also attempt to establish a link between the activities of TNCs and the persistent international trade problems which African countries face and why it has been so difficult to implement an effective policy through which trade can really be an "engine" for growth and development.

II. MARKETING AND DISTRIBUTION OF AGRICULTURAL PRIMARY COMMODITIES

4. Despite heroic attempts to control the marketing of primary commodities, most African Governments still find it difficult to effectively control trade in these commodities. On the other hand, transnational corporations enjoy a considerable advantage in trade, marketing and distribution of agricultural primary commodities. 3/ In modern times, TNCs have effectively controlled agro-business

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1/ For details of the implications of TNCs' activities in Africa see, ECA, Transnational Corporations in Africa: Some Major Issues (E/ECA/UNCTC/21), 13 January 1983; A Third Survey (ST/CTC/48), 1983.

2/ See, for instance, UNCTC, various reports on activities of TNCs in Southern Africa (E/C.10/26; E/C.10/39; E/C.10/38; ST/CTC/13; E/C.10/1982/11).

3/ For full details, see UNCTC, Transantional Corporations in World Development: A Re-examination (E/C.10/38).

in Africa through heavy investment in high technology and capital-intensive techniques covering a large range of activities in production and marketing in commodities, including coffee, cocoa, palm products, groundnuts, beans and lentils, tea, cotton, tobacco, maize, sugar, fruits and vegetables, dairy farming and meat, and wood pulp and paper industries. It should be stressed that TNCs virtually control every aspect of investment, production, trade and marketing of all the critical products constituting the bulk of Africa's external and intra-African trade. 4/ In fact, so great is their influence in these commodities that international negotiations cannot yield results unless some form of control over their activities can be instituted.

5. In the field of agricultural food and non-food primary commodities, TNCs exercise monopolistic or oligopolistic power by buying out any indigenous competitors; fixing prices at the international commodity exchanges; extensive and intensive advertising and merchandising; and transfer pricing. 5/ To the extent that this is so, the access of African countries to the markets of the developed nations is controlled by TNCs which also influence the policies of their home governments. TNCs have constantly fought to maintain the status quo in the production and distribution of these commodities in order to safeguard their profits. 6/

6. In recent years, a few African countries have managed to introduce some processing in their agricultural commodities, 7/ but these measures are constantly frustrated by protectionism in the industrialized countries which give an added advantage to the TNCs. In fact, only six TNCs control the tobacco industry; fifteen TNCs control the trade in cotton; and a few of them control the sugar and tea industries as well as the marketing and pricing of coffee. These TNCs can easily collude to deal with an African country which they consider unco-operative. In most of these commodities, TNCs fix prices since they buy directly from large-scale as well as small-holder farmers. The governments which have no investments in most of these industries cannot effectively intervene to protect the indigenous farmers and producers. 8/ There is, however, some control in certain countries, such as Tanzania and Sudan, where the export of cotton is undertaken by the State enterprises.

4/ See also, Richard J. Burnett and Ronald E. Muller, Global Reach: The power of the multinational corporations, New York, Simon and Schuster, 1974 especially chapters 6 and 7.

5/ See also UNCTAD, Dominant position of market power of transnational corporations: Use of transfer pricing mechanism (TD/B/C.2/167).

6/ See UNCTAD, The international market power of transnational corporations (UNCTAD/ST/MD/13), 14 April 1978.

7/ ECA, Transnational Corporations in Agricultural Food Processing Industries in Selected African Countries (E/ECA/UNCTC/25).

8/ ECA, Transnational Corporations in the Non-food Agricultural Industry in Africa (E/ECA/UNCTC/44).

III. TRANSNATIONAL CORPORATIONS IN THE EXPORTS OF AFRICAN MINERALS

7. Experience shows that the marketing and distribution of Africa's minerals is more difficult to control than other primary commodities for two basic reasons. Firstly, Africa, especially Southern Africa, has one of the largest concentration of strategic minerals among developing countries. 9/ Consequently, it also has the largest number of giant TNC conglomerates in the mining industry. In fact, at the global level, only seven TNCs control the world oil industry in a giant cartel. 10/ The activities of TNCs cover a whole range of minerals such as bauxite, aluminium, alumina, asbestos, tin, iron, manganese, steel, cobalt, chrome, petroleum, zinc, cobalt, gold, diamonds, copper, coal and many other rare and precious metals. Secondly, the prices of all these metals are not decided by the producer countries but through the London Metal Exchange (LME) and the American Metal Exchange. This, in turn is controlled by the TNCs.

8. In recent years, attempts have been made to increase the processing of minerals in order to improve the export earnings. To this end, various provisions have been concluded in the agreements with TNCs but have not been implemented for one pretext or the other. The incidence of "transfer pricing" is very high in the marketing of metals due to increased intra-firm activities between the subsidiaries and parent companies abroad. 11/

9. Several producer associations have been established to deal specifically with the marketing of minerals in which the African producer countries are members. 12/ Principally, these associations aim at an orderly and rational development of the minerals so as to obtain a long-term balance between production and consumption to avoid severe short-term price fluctuations; to conduct marketing studies, disseminate information on the world market conditions of these metals and to provide a consultative mechanism among the members; to ensure fair and reasonable profits for the member countries in the exploitation, processing and marketing of these metals; and in general, to protect the interests of member countries in these industries.

10. In the case where there is no such collective bargaining in the exports and marketing of these metals, it is left up to individual countries to negotiate with the TNCs. This often presents formidable problems because of the general lack of information, on the part of the Governments, about the TNCs global distribution channels as well as negotiating skills and capabilities. In some countries such as Australia, an export control system has been instituted under which the

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9/ See US Bureau of Mines Bulletin, Mineral Facts and Problems, No. 671 (1980) and Alan W. Bateman, Economic Mineral Deposits (Second Edition), New York, John Wiley and Sons.

10/ See Anthony Simpson, The Seven Sisters (The Great Oil Companies and the World they Shaped), Coronet Books, Hodder and Stoughton (Third Impression), 1980, Chapter 14.

11/ See ECA, The Structure, Policies and Operations of Transnational Corporations in the Mining Industry in Africa (E/ECA/UNCTC/40), 11 April 1984, Chapter V.

12/ Among them are: The International Bauxite Association (IBA); Organization of Petroleum Exporting Countries (OPEC); Intergovernmental Council of Copper Exporting Countries (CIPEC); International Tin Council (ITC).

Government required to prior approve the TNC contracts and prices of bauxite and alumina to ensure that such prices are "fair and reasonable". 13/ Perhaps African countries should also circulate this and insist that they have a final say in the prices of their minerals.

11. One very critical factor in the trade in African minerals is information. Most African countries lack up-to-date and reliable information on the mining operations and prospects in their countries. In order to improve the situation, member States should devise new measures for controlling the trade and marketing of their minerals by TNCs.

IV. SOME POLICY IMPLICATIONS FOR AFRICA'S TRADE EXPANSION

12. The vast amount of research and studies conducted by the United Nations and its specialized agencies, as well as by independent researchers, share a common view that unless some effective control of TNCs is instituted, Governments would continue to experience difficulties in adopting and implementing an effective trade policy. 14/ The following are some of the lessons of experience which have emerged from the activities of TNCs in the field of trade and marketing of African primary commodities and minerals.

(a) Since the colonial era, TNCs continue to wield tremendous control of the production, distribution and marketing of primary commodities and minerals in Africa. In many countries, virtually all large-scale plantations and agricultural projects, including cattle ranching and dairy industries, are owned by TNCs or their subsidiaries and affiliates. A related finding is that the TNCs laid emphasis on the production of export cash crops to the detriment of food production which was largely subsistent. 15/ Partly as a result of this orientation, since the late 1960s, many African countries have persistently experienced food deficits.

(b) During the past twenty years, some advances have been made by the Governments to regulate the activities of TNCs in the production, processing and exports of agricultural primary commodities, related raw materials and minerals in order to increase the "retained value" in these commodities. However, statistics show that developing countries generally receive less than 25 per cent of the final consumer price. 16/ The primary objective of such regulations has been an attempt

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13/ Statement by Deputy Prime Minister of Australia, Hon. J.H. Anthony, in the House of Representatives, 24 October 1978; and "The Development of Bauxite, Alumina and Aluminium Industries" Report of the Standing Committee on Natural Resources, Canberra, Australian Government Publishing Service, 1981.

14/ See UNCTC, Multinational Corporations in World Development (ST/ECA/190), 1973; Raymond Vernon, Sovereignty at Bay, London, Longman Group Ltd. 1971, Chapters 2 and 3.

15/ See also Susan George, How the Other Half Dies: The Real Reasons for World Hunger, London, Penguin Books Ltd., 1976, pp. 158 et eq.

16/ See North-South: A Programme for Survival (The Willy Brandt Commission Report), Pan World Books, 1980, pp. 144-145.

to increase their export earnings. State participation or ownership has been instituted in a number of countries such as Sudan, Egypt, Tanzania, Mozambique, Ethiopia and Zambia. Some efforts have also been made to devise a more equitable distribution of costs and benefits between the host countries and the TNCs. However, the progress has been painstakingly slow and the share of the Government in agricultural production continues to remain too low, notwithstanding the fact that many countries heavily depend on primary commodities.

(c) Available information shows that negotiations with TNCs in the agricultural and mining sectors of the African countries (where they have been instituted) have not been systematic but were held on ad hoc basis. This has been partly because of the lack of negotiation skills and techniques on the part of the host countries, and partly because the countries have been handicapped by the lack of financial resources, information and technical and managerial capacities which could substitute for the role played by TNCs in these sectors. Consequently, despite declarations to increase the value added in primary commodity and minerals production through processing in the host countries, TNCs have, by and large, managed to resist such moves, 17/ the level of agricultural processing continues to be generally low in Sub-Saharan Africa, except in a few countries such as Zimbabwe, Kenya, Nigeria and Ivory Coast. In fact, the processing that exists is limited to a few commodities especially to reduce the bulk for exportation. Therefore, the gains to the host countries have not improved over the years and in some cases have even declined.

13. In order to institute changes in the present structure of production and trade, African Governments should consider establishing where this does not exist, a National Agricultural Commodities and Minerals Export Bureau whose functions would be defined by each Government depending upon its specific situation and needs. However, in broad terms, such a Bureau would inter alia be responsible for (a) developing an overall trade and pricing policy for all primary commodities and minerals to ensure a centralized system; (b) collecting, analysing and disseminating information relating to the production, distribution and marketing of primary commodities by TNCs operating in their country; (c) monitoring and evaluating the movements in prices and other relevant indicators in the world market of these commodities; (d) acting as the negotiating body for the Government in their dealings with TNCs engaged in the production and marketing of these commodities; and (e) advising Governments on the overall trade and marketing policy of the country in respect of agricultural primary commodities and minerals. Member States wishing to establish such a Bureau can get technical assistance and advisory services from the United Nations Centre on Transnational Corporations in New York as well as its ECA/UNCTC Joint Unit on Transnational Corporations situated in Addis Ababa, Ethiopia.

17/ See ECA, Transnational Corporations in Agricultural Food Processing Industries in Selected African Countries (E/ECA/UNCTC/25), 3 October 1984.

V. CONCLUSIONS

14. It is self-evident from this paper that African Governments will continue to experience serious problems in their external trade as well as intra-African trade policy so long as TNCs continue to dominate the production, trade, marketing, distribution and advertising of Africa's primary commodities and minerals. Since these commodities are the life-blood of most African economies, some drastic policy action needsto be taken to improve the structure, composition and direction of Africa's trade. 18/

15. This proposes that all African countries should make an inventory of the trade, marketing and distribution activities and channels of TNCs for mineral and other agricultural primary commodities in order to establish their market linkages both at home and abroad. At the same time, a survey should be made of the trade, marketing and advertising capabilities of national or indigenous trade structures (both public and private) to determine what role or services these can immediately offer to the countries as a viable alternative to TNCs. A list of all primary commodities and minerals produced and exported by each country should also be prepared which together with the other information, should form the basis for a new round of negotiations with TNCs so as to establish new modalities for the production and external trade in these commodities.

16. As has been emphasized earlier in this paper, the development of effective negotiating strategies and techniques with TNCs has always been a problem for many African countries. This is especially more difficult in the field of trade in primary commodities and minerals. In order to develop this new direction, the United Nations Commission on Transnational Corporations initiated work towards an International Code of Conduct for Transnational Corporations. However, to date no agreement has been reached on such a Code of Conduct. This has once more clearly shown the possible collusion between the TNCs and their home Government. Therefore, there is the need for developing African countries to develop and strengthen their institutional capacity at the national, subregional and regional levels, to deal with problems of transnational corporations. To do so, it must be fully recognized that the power of TNCs emanates from their size and world-wide operations, their control of market information as well as their command of strategic assets such as technology, managerial skills, corporate planning and control, their ability to tap resources and enter markets internationally while on the other, the weakness of the developing countries stems from their dire need or total lack of these attributes.

17. The economic interdependence dictates that the mutual benefits from the production and trade in primary commodities and minerals should accrue to both the host governments as well as the TNCs in an equitable manner. But a situation

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18/ See Karl P. Sauvant and Farid C. Lavipour, Controlling Multinational Enterprises: Problems, Strategies and Counterstrategies, Boulder, Colorado, Westview Press, 1976.

19/ See UNCTC, Measures Strengthening the Negotiating Capacity of Governments in their Relations with TNCs (ST/CTC/10).

in which the major portion of the profits in such trade are absorbed by the TNCs while virtually all the costs are shifted to African countries is unacceptable and must not be allowed to continue. It is imperative that host governments should introduce policies that would increase their participation in the production, marketing and distribution of such commodities. To this end, State Trade Organizations (STOs) should be developed or strengthened. African multinational production and marketing enterprises should also be established to deal with each of the key primary commodities on which these African countries depend. It is also imperative that there should be a direct link between the industrial and agricultural processing with trade and marketing to ensure the removal of excess capacity in these industries so as to increase the "value added" and hence export earnings.